The Becker Milk Company Limited

Annual Report
Year Ended April 30, 1970

BECKER'S

Index

Highlights of the year

Year ended April 30	1970	1969	Percentage Change
Sales	50,636,008	42,581,264	+18.9
Operating earnings	3,271,049	2,708,481	20.8
Net earnings	1,064,372	916,597	16.1
Earnings per share	.60	.51	17.6
Long term debt	2,468,628	2,399,584	2.9
Shareholders' equity	5,421,093	4,383,481	23.7
Shares outstanding — Class A	5,675	5,675	—
— Class B	1,177,510	1,176,790	—
— Common	540,750	540,750	—
Number of stores	293	251	16.7
Number of employees	1,238	1,120	10.5

Becker country is jug milk country

We are still the undisputed price leader for milk in Becker Country. This was proven early in 1970 when other dairies announced a general price increase. Once again they had to reduce their prices when it was found that we did not increase ours.

Our policy is to keep milk prices down. The public is aware of our objective and we believe it contributes favourably to our image. A price increase will only be considered when extra costs can no longer be recovered through operational efficiencies.

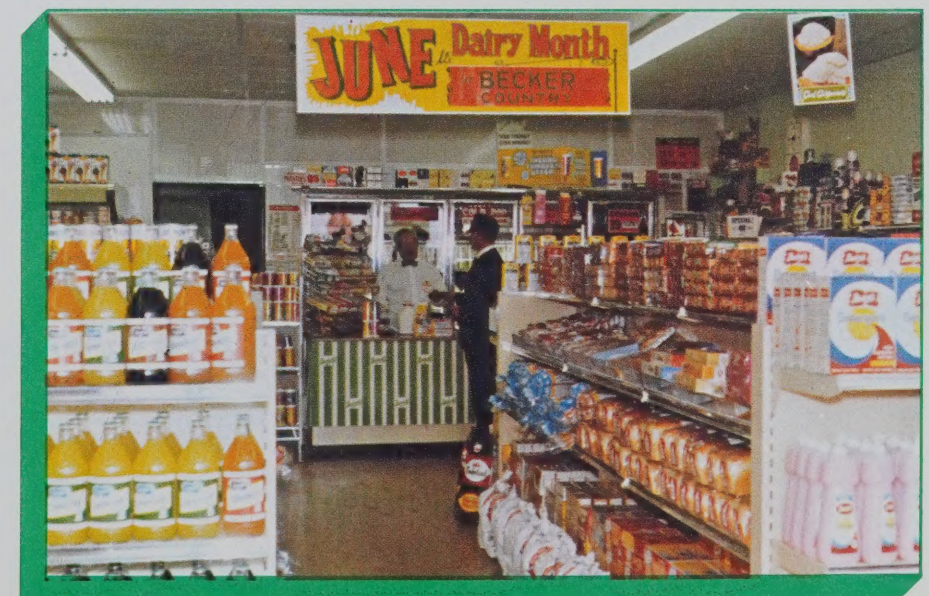
The promotion of loss leaders is one marketing strategy to help retailers meet growing public demand for lower prices. If all retailers continually offered loss leaders and at the same time expected to operate profitably, they would find it necessary to increase prices on other items beyond their usual profit margin. This would only be misleading their customers. It hardly appears to be an intelligent policy in these days of sophisticated comparison shopping.

Loss leader promotions are not in our customers' or our own best interests. We have chosen to meet the challenge of intensely competitive business conditions in other ways. A mainstay of our present marketing policy is to give the best possible prices on the products we sell.

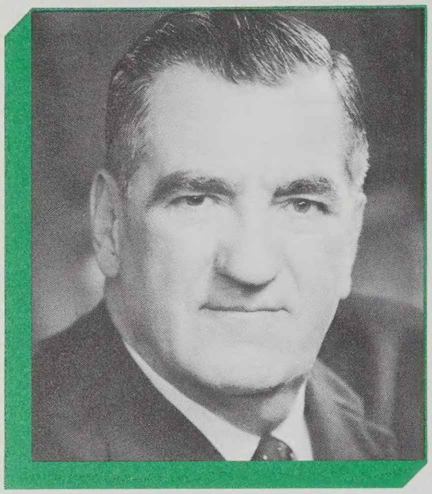
In our effort to keep prices down we have striven to achieve greater efficiency in processing and distribution. In the past year we have developed many ways to improve our operations. The more significant are revealed in the following pages.

Becker Country is growing. It is growing because a larger number of people prefer low prices, friendly service, the store hours and the convenience of a nearby store. Since this trend in consumer demand shows no sign of abatement, our corporate aim will be to continue to cater to these needs in every possible way consistent with our profit objectives.

All Becker stores promote milk during National Dairy Month, and every month.



Directors' report to the shareholders



Frank A. Bazos, Chairman of the Board

Robert W. Lowe, President

We are pleased to report the results of our thirteenth year of operation. Becker's once again established new performance records.

Our sales for the year ended April 30th were $50,636,008, an increase of 19% over the previous year. Net earnings of $1,064,372 were up 16%. This is the equivalent of 60¢ per share, after allowing for the Class A Preference Share dividends, compared to 51¢ a share a year ago. As in 1969, our earnings this year were maintained at 2.1% of total sales.

By April 30th we had a record 293 stores in operation — 42 more than the same time last year. For the past several years the trend has been for the number of outlets to expand somewhat faster than sales volume. Growth in earnings tended to fall behind both. For example, in 1969 we reported the following percentage increases: outlets 25%, sales 23% and earnings 15%. If you compare with our 1970 growth rates in order of size: sales 19%, outlets 17% and earnings 16%, you will see that sales growth was greater than the increase in outlets and the gap between the three figures has narrowed substantially.

Improved results have been achieved despite more intensive competition and increasing pressures due to higher costs. This unfavourable trend in costs prevails throughout our industry and business in general.

The soundness of the policy to offer our customers the lowest

Photo: Ashley & Crippen

prices consistent with high product quality has again been proven by our results. It is this policy plus convenience shopping at clean, modern stores, strategically located in Becker Country and open many hours of every day of the week, which has enabled us to gain the loyalty of many shoppers.

There were many factors contributing to a record year of achievement. Not the least was the very significant contribution of our employees at every level in the organization. We are happy that they can look back over the past months and know that their enthusiasm, energy and loyalty has helped produce such satisfactory results.

For quite some time we have been aware that we have had to operate under adverse business conditions. These have not eased. If anything the business climate and the economy in general have worsened and only the most optimistic can foresee an early easing of the situation. Nevertheless, Becker's position encourages us to be very optimistic concerning the future trend of our own business.

Sincerely,

Frank A. Bagot

Chairman of the Board

President

Meeting the challenge of growth

Becker Label Products

We have developed an impressive line-up of products under the Becker label during the past years. They have proved popular with the public and profitable to us. Some items are processed and packaged by Beckers and others are produced to our specifications by outside suppliers. Whatever the source, we expect all Becker label products to conform to our own rigid standards of quality. We are continually striving to improve and up-date them to increase their appeal to our customers.

One of the major changes announced previously was the conversion from returnable glass bottles to plastic coated cartons for our quart and half pint milk containers. It appears that the segment of the market purchasing milk in smaller containers is particularly conscious of convenience. Since the beginning of the year we have enjoyed a significant increase in the sales of quart containers without loss in sales of the larger sizes.

The orange juice and fruit drink volume has grown significantly since the introduction of the new cartons. Apart from the convenience of the package the very attractive design of the cartons has helped to promote the sale of these products.

Another improvement was the introduction of a more economical loaf of bread which is sold in a Cello Wrap rather than the Poly Bag used for our regular loaves. The above mentioned packages and many others from the Becker label line are shown in the colorful display below.

Administration

The continual upgrading of capacity and utilization of our IBM System 360 Model 20 Computer has yielded marked efficiencies in accounting and administration. The most recent improvement has been the addition of a Disk Drive.

The increased capability of the computer has enabled us to produce more essential information and to produce it faster.

All our store orders, invoicing, store accounting, payroll and most of our general accounting is now handled by the Data Processing Department. Despite the considerable growth in number of stores with the attendant increase in work load, we have actually been able to reduce our general office staff in the past year.

Personnel Development

During the year we were able to obtain qualified new personnel for all areas of our operation in keeping with the requirements of our growth.

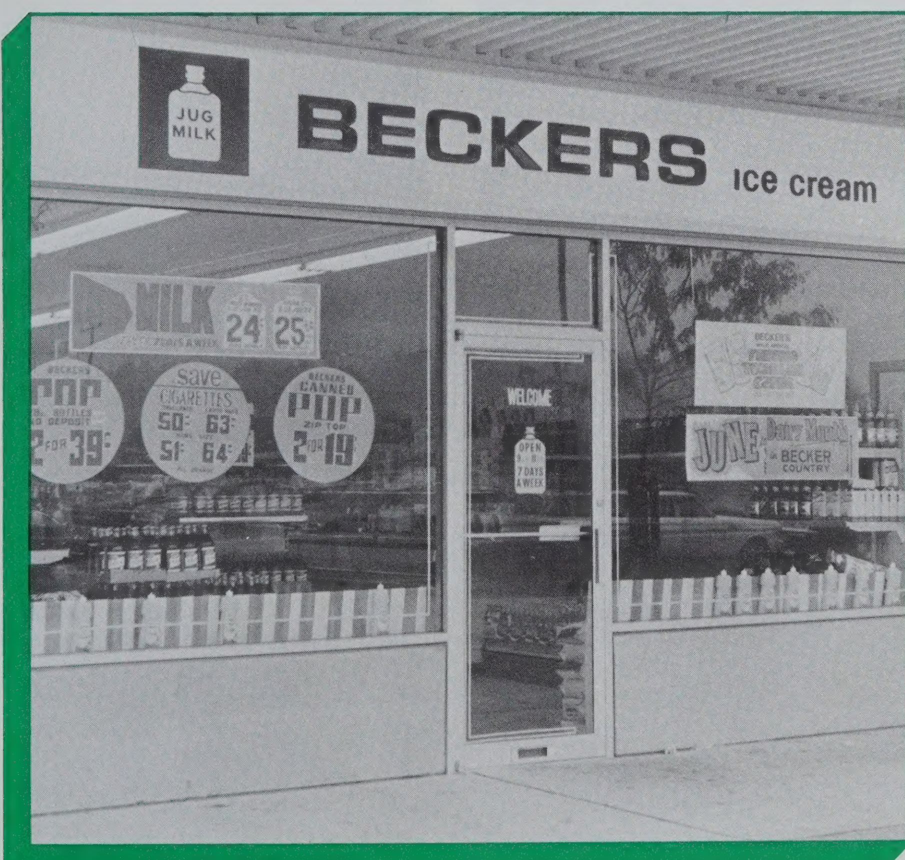
In the case of Store Managers in particular we would again like to refer to our Training School. This school has now been in operation for two years and the in school, as well as on the job training programme has provided us with a pool of well qualified and enthusiastic Store Managers. Such Managers have no doubt played a significant part in the customer acceptance of our stores. In these days of the impersonal relations of mass distribution such old fashioned friendly relationship is proving to be a refreshing change for many customers.

New Stores

During the past year we again opened 50 new stores. Approximately one third were located in Metropolitan Toronto, another third increased the number of outlets in the areas surrounding Metro and the balance were in the two new marketing areas into which we expanded shortly before the beginning of last year. (See map page 6.)

Although we opened 50 new stores, our actual net increase in total stores was 42. During the year we lost two outlets through fires and closed six others. Store closings were planned as part of our programme to increase overall operational efficiency. The closing of marginal outlets has contributed to this year's improved results.

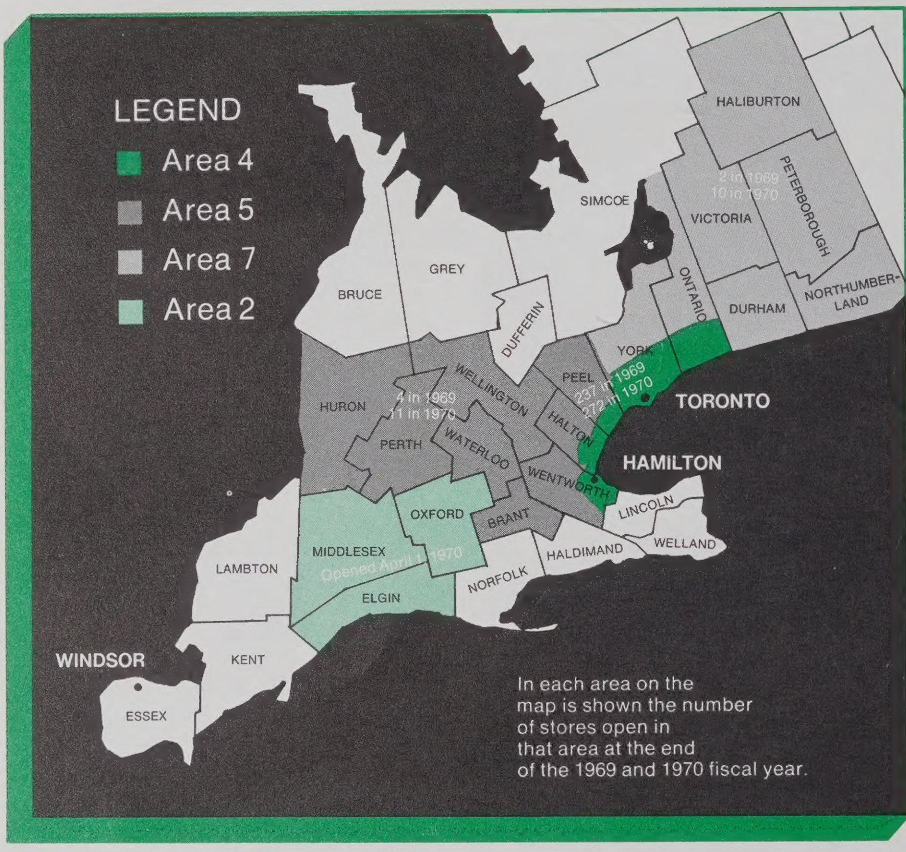
We mentioned in previous re-



One of our new stores in a covered shopping plaza.

Friendly service in a clean well-stocked store.

Meeting the challenge of growth



ports the increasing competition for good store locations and the scarcity of such locations. Tight money has not eased the situation so that we have had to be more flexible in our approach to locations. We are fortunate to have adequate financing available and it has been advantageous in numerous cases to purchase properties for the development of new stores.

There are some indications of an easing of the money market in the future which should bring an increase in real estate development and construction.

Becker Country is growing

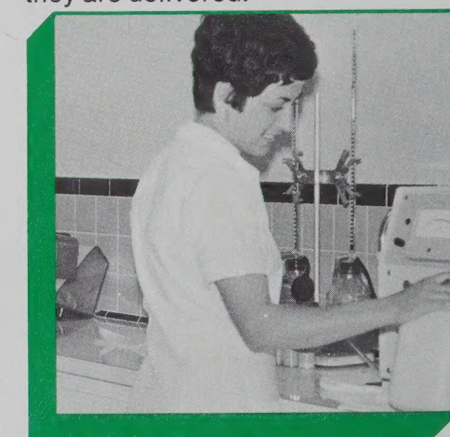
On April 1st we expanded into another Milk Marketing area through the purchase of certain assets of the A.C. Wilson Dairy Limited in Ingersoll, Ontario. This acquisition has added a well populated section of South Western Ontario to Becker Country. We look forward to opening stores in this area in the near future. The new area is shown on the map above.

Truck Fleet More Efficient

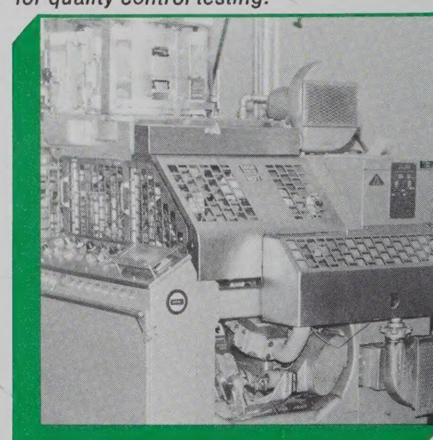
We have continued to make improvements and to effect efficiencies in our delivery service. For example all of our heavy vehicles are now equipped with automatic tailgates. This enables the driver to unload more quickly. We have found that this equipment improves utilization by shortening the time spent at each store.

Since our last report our service garage was placed into operation. The preventative maintenance programme has reduced time losses and lowered repair costs. Our fleet is continually being improved as the older vehicles are phased out of service and replaced where ever practical with more efficient tractor-trailer units.

The refrigeration system used in our trucks also was improved. The new system maintains the required temperature conditions throughout the day. This way all products on delivery reach our stores in factory fresh condition regardless of what part of the day they are delivered.



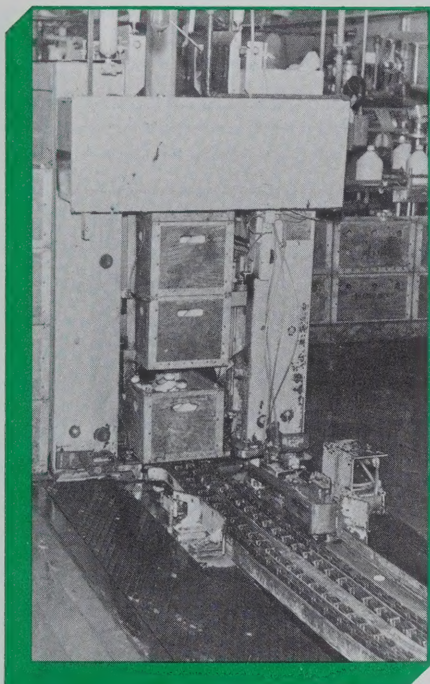
Laboratory technicians are responsible for quality control testing.



Processing Improvements

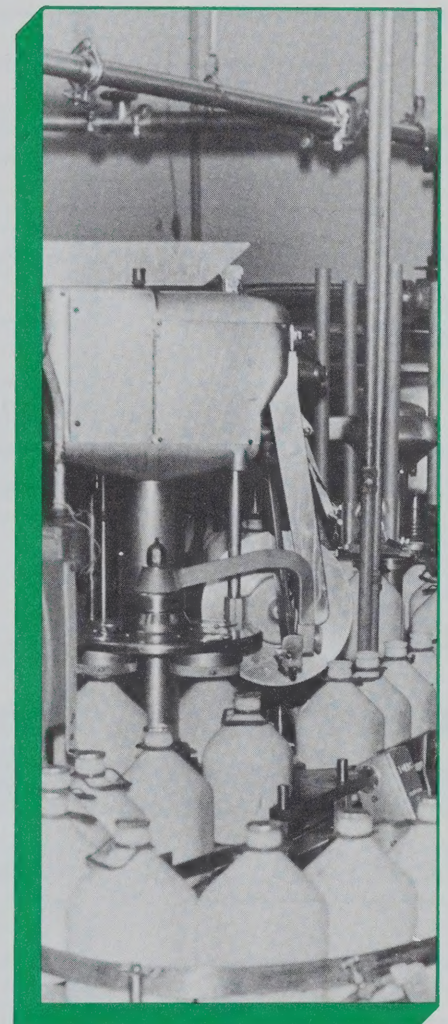
During the year we have greatly increased the efficiency of our plant through further production line automation. Now all stacking and unstacking of milk cases and the placing of jugs and cartons into cases is done automatically.

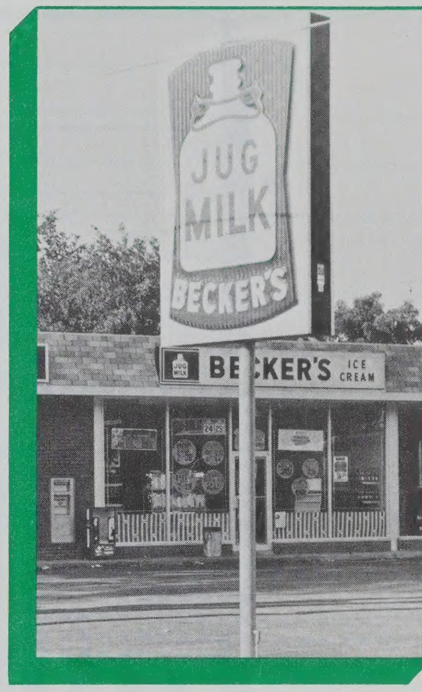
A year ago we reported that we were preparing for a change in our quart and half pint size packaging. This conversion from returnable containers was made at the beginning of last year and has



proven to be eminently successful. It is a significant improvement in our production efficiency and a success from the marketing point of view as well.

We also installed a high speed filling machine, the fastest and most modern of its kind in Canada, to handle non-returnable plastic coated cartons. This new equipment has increased our production capacity and enables us to utilize our previous filling lines for the pro-





cessing of returnable containers exclusively.

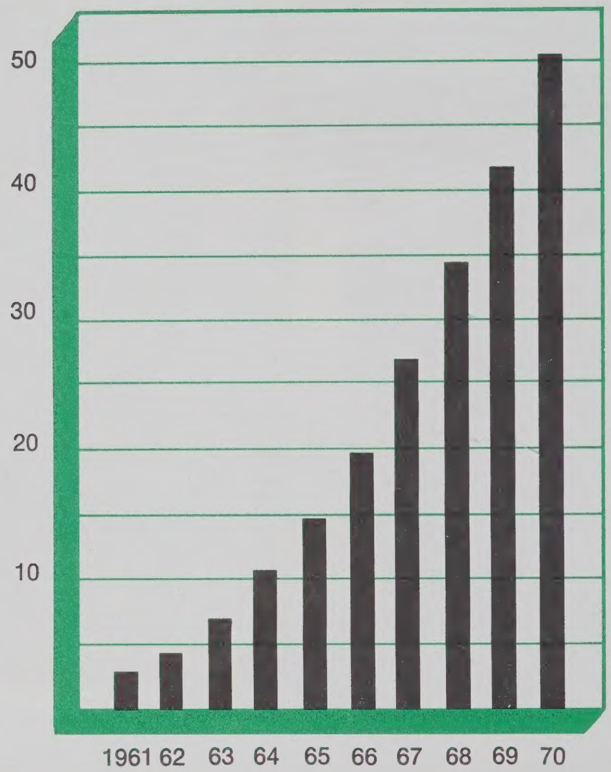
Financial Position

Cash flow from operations has been more than sufficient to finance the setting up and opening of 50 new stores in the past fiscal year. True, working capital decreased by $109,077, but this is more than accounted for by the outlays to redeem Series B debentures, to acquire new facilities in Ingersoll and to handle our largest programme of real property acquisition. Included in the figures of capital expenditures for the year are some outlays for land and building where the properties were still under development at the end of the fiscal year.

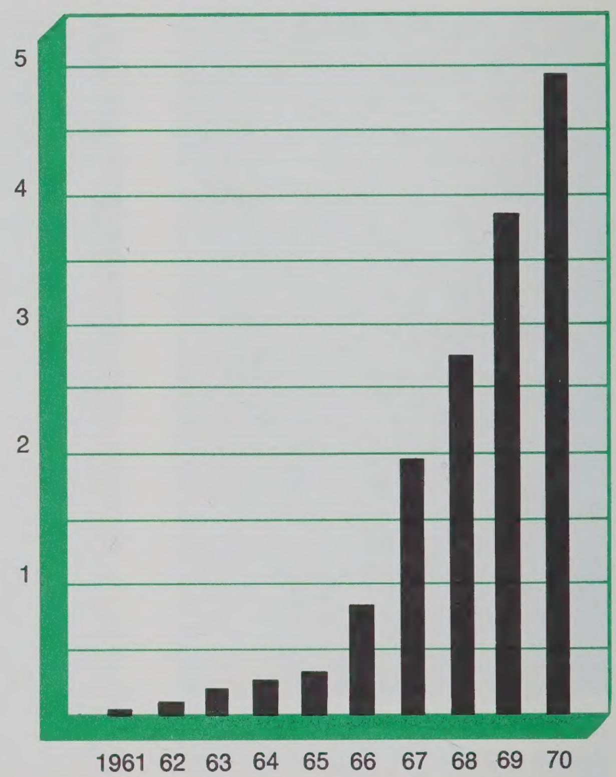
Apart from our excellent cash flow, we are also fortunate to have a further $2,000,000 available under the debenture financing arrangement with the Royal Bank of Canada. It will enable us to continue our expansion programme or to step it up if circumstances are favourable. We have every confidence in our future prospects due to the continued public acceptance of Becker's stores.

Financial review

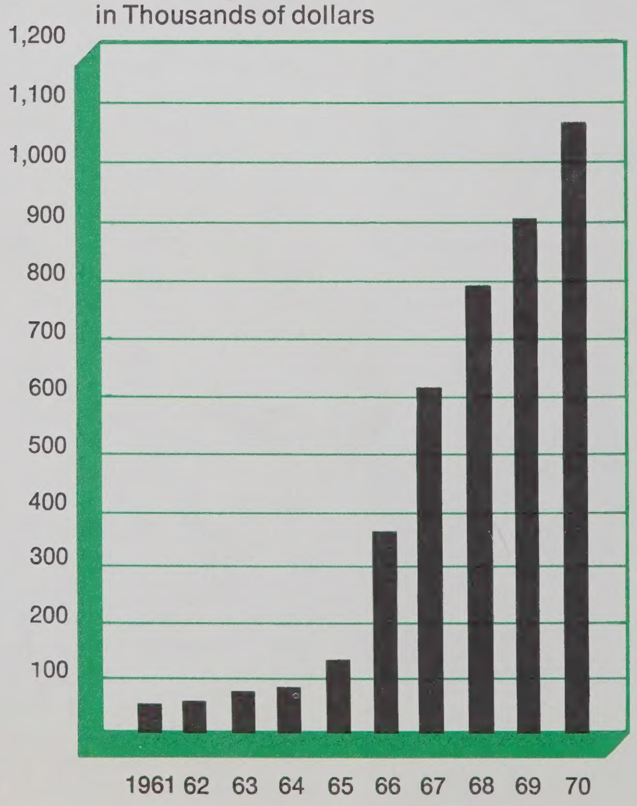
Total Sales
in Millions of dollars



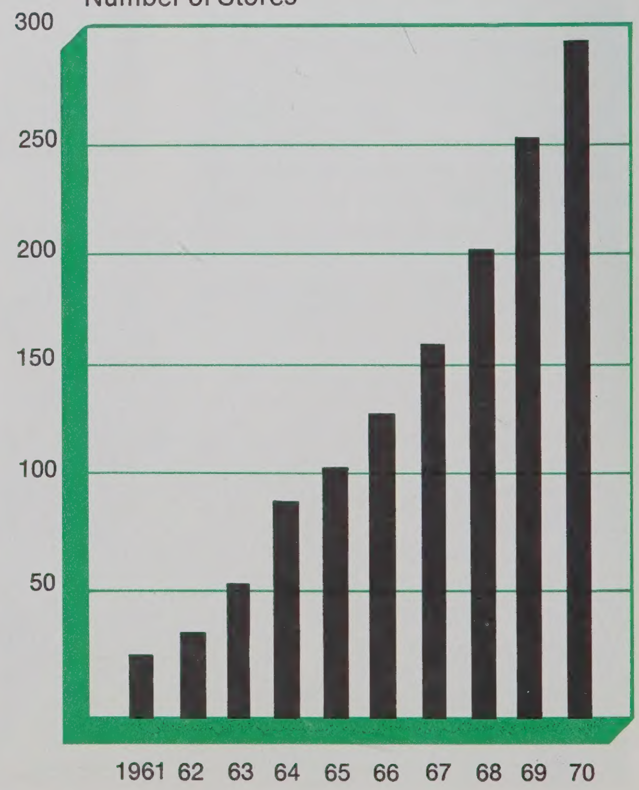
Shareholders' Equity
in Millions of dollars



Net Earnings (after tax)
in Thousands of dollars



Number of Stores



The Becker Milk Company Limited and subsidiary companies

Consolidated statement of earnings

For the year ended April 30, 1970

	1970	1969
	$	$
Sales	50,636,008	42,581,264
Cost of goods sold	37,365,139	31,256,032
Gross profit	13,270,869	11,325,232
Operating expenses	9,999,820	8,616,751
Earnings before depreciation and amortization, interest charges and taxes on income	3,271,049	2,708,481
Depreciation and amortization (Note 9)	814,019	693,962
Interest charges	194,858	80,813
Taxes on income (Note 9)	1,197,800	1,025,431
Earnings from operations	1,064,372	908,275
Add: Gain on sale of investment and fixed assets	—	8,322
Net earnings for the year	1,064,372	916,597

Consolidated statement of retained earnings

For the year ended April 30, 1970

	1970	1969
	$	$
Balance beginning of year	2,972,449	2,089,902
Net earnings for the year	1,064,372	916,597
	4,036,821	3,006,499
Dividends paid on class A shares (Note 8)	34,050	34,050
Balance end of year	4,002,771	2,972,449

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated balance sheet

As at April 30, 1970

Assets

	1970	1969
	$	$
Current Assets		
Cash	333,144	39,403
Marketable securities — at cost	5,073	—
Store managers' accounts and sundry accounts receivable	224,294	177,954
Advances to employees	1,869	11,506
Inventories —		
Plant, at lower of cost or net realizable value	1,322,915	1,119,800
Stores, at lower of cost or net realizable value less normal profit margin	2,744,239	2,210,933
Prepaid expenses and deposits	155,992	231,980
Federal refundable tax	—	14,427
Chattel mortgages receivable	2,199	4,959
	4,789,725	3,810,962
Advances to associated company (Note 2)	29,518	28,518
Fixed Assets (Note 3)		
Assets — at cost	10,528,298	8,427,028
Less: Accumulated depreciation and amortization	3,191,593	2,441,540
	7,336,705	5,985,488
Other Assets		
Rent deposits	13,580	13,530
Progress draws on building construction	—	99,553
Payment in respect of retail sales tax assessment — (Note 4)	163,375	163,375
Sundry	41,004	29,466
	217,959	305,924
	12,373,907	10,130,892

Approved on behalf of the Board:

Frank A. Bazos

Frank A. Bazos, Director

R W Lowe

Robert W. Lowe, Director

The accompanying notes are an integral part of the consolidated financial statements.

Liabilities

	1970	1969
	$	$
Current Liabilities		
Bank indebtedness (Note 10)	568,718	—
Accounts payable and accrued expenses	2,816,703	2,512,586
Equipment instalments	2,724	1,898
Income and other taxes payable	638,988	459,088
Sundry mortgages payable	40,311	6,032
	4,067,444	2,979,604
Long-Term Liabilities		
Managers' bond deposits	313,175	264,700
Equipment instalments — less current portion	6,584	—
6% series B debentures	—	50,000
Series C debentures (Note 5)	2,000,000	2,000,000
Sundry mortgages payable — less current portion (Note 6)	148,869	84,884
	2,468,628	2,399,584
Deferred income taxes (Note 9)	416,742	368,223

Shareholders' equity

Share Capital		
Authorized—		
8,000—6% cumulative class A preference shares with a par value of $100 each, redeemable at par		
2,459,250—non-voting, non-cumulative, participating class B preference shares without par value		
640,750—common shares without par value		
Issued and Fully Paid (Note 7)		
5,675—class A shares (last year 5,675)	567,500	567,500
1,177,510—class B shares (last year 1,176,790)	850,534	843,244
540,750—common shares (last year 540,750)	288	288
	1,418,322	1,411,032
Retained earnings (Note 8)	4,002,771	2,972,449
	5,421,093	4,383,481
	12,373,907	10,130,892

Consolidated statement of source and use of funds

For the year ended April 30, 1970

	1970	1969
	$	$
Source of Funds		
Operations		
Net earnings for the year	1,064,372	916,597
Charges not requiring an outlay of funds:		
Depreciation and amortization	814,019	693,962
Deferred income taxes	48,519	100,111
	1,926,910	1,710,670
Other		
Issue of series C debentures	—	2,000,000
Issue of class B shares	7,290	224,971
Manager bond deposits	48,475	68,675
Increase in mortgages payable — net	63,985	12,974
Increase (decrease) in equipment instalments — net	6,584	(1,900)
Sale of shares in associated company	—	50,050
Decrease in federal refundable tax	—	17,924
	2,053,244	4,083,364
Use of Funds		
Purchase of fixed assets (net of disposals) and progress draw payments	2,065,683	2,084,502
Increase in advances to associated company	1,000	—
Dividends paid on class A shares	34,050	34,050
Increase in rent deposits	50	2,037
Repayment of 6½ % first mortgage bonds	—	635,000
Payment in respect of retail sales tax assessment	—	163,375
Redemption of series B debentures	50,000	—
Sundry	11,538	29,466
	2,162,321	2,948,430
Increase (decrease) in working capital	(109,077)	1,134,934
Working capital at end of year	722,281	831,358
Working capital at beginning of year	831,358	(303,576)
Increase (decrease) in working capital	(109,077)	1,134,934

The accompanying notes are an integral part of the consolidated financial statements.

Notes to consolidated financial statements

As at April 30, 1970

1 BASIS OF CONSOLIDATION

The accounts of the two subsidiary companies have been included in the consolidation from the date of their acquisition.

2 ADVANCE TO ASSOCIATED COMPANY

Euclid Securities Limited has guaranteed the repayment to the Company of amounts due from the associated company.

3 FIXED ASSETS

Fixed assets are classified as follows:

	Cost	Accumulated Depreciation and Amortization	Net Book Value
	$	$	$
Land	550,711	—	550,711
Buildings	2,120,074	155,863	1,964,211
Equipment — plant	1,128,069	516,709	611,360
— stores	4,775,367	1,795,349	2,980,018
— office	108,889	44,557	64,332
Trucks and automobiles	725,494	346,576	378,918
Leasehold improvements	1,119,694	332,539	787,155
	10,528,298	3,191,593	7,336,705

4 PAYMENT IN RESPECT OF RETAIL SALES TAX ASSESSMENT

The Company has paid the assessment of $163,375 covering the 3½ years ended April 30, 1968, as levied by the Ontario Retail Sales Tax Department. The notice of objection to the assessment has been filed and, if unsuccessful, the retained earnings of the Company would be reduced by approximately $76,200.

5 SERIES C DEBENTURES

The authorized maximum loan from the Company's bankers under these debentures is $4,000,000. Draw-downs may be made in minimum amounts of $500,000 to December 31, 1971. Interest on the amounts outstanding will be 1% above the bank's prime lending rate and is payable quarter yearly. Repayment of the principal is to commence not later than December 31, 1974 in annual principal instalments of not less than 10% of total loans then outstanding. The loan may be prepaid at any time without notice or bonus. The Company's bankers will receive warrants to purchase class B shares at the rate of a warrant to purchase 2,000 shares per $500,000 loan so drawn-down in excess of $1,000,000 until warrants to purchase an additional 12,000 shares have been issued. The price per share shall be 10% above the closing bid quotation on the day previous to the draw-down with respect to which the warrants were issued and may be exercisable for a period of five years from the date of the draw-downs. At this date warrants have been issued for 4,000 shares. These debentures are secured by a charge on all assets presently owned and hereafter acquired. Dividends may be paid on any class of shares provided capital and retained earnings exceed $3,250,000.

6 SUNDRY MORTGAGES PAYABLE

This amount covers 11 mortgages on properties purchased for retail store locations and additional warehouse and/or production facilities. The principal amounts mature up to 1979 with various interest rates, not exceeding 10%.

7 SHARE CAPITAL

During the year 720 non-voting class B shares were issued to employees for an aggregate sum of $7,290.

8 DIVIDENDS

On December 31, 1969, the Company declared a dividend of $6 per share on its class A shares, being the dividend accruing from January 1, 1969 to December 31, 1969. This dividend, totalling $34,050, was paid on January 2, 1970.

9 DEPRECIATION

Depreciation has been calculated in accordance with the Company's established policy of amortizing the depreciable properties over the estimated useful life, with the exception of trucks and automobiles which have been depreciated at maximum normal rates permitted by regulation under the Canada Income Tax Act. The Company has continued to claim maximum allowances for income tax purposes.

10 FLOATING CHARGE DEBENTURES

$450,000 principal amount of debentures of the Company, due on demand and secured by a floating charge, are lodged with the Company's bankers as collateral security for loans outstanding from time to time.

11 REMUNERATION OF DIRECTORS AND OFFICERS

Expenses include $112,403 (last year $88,449) for remuneration of officers and $5,300 for directors' fees (last year nil).

12 LEASES

The minimum annual rentals payable (excluding insurance, property taxes and certain other occupancy charges) under the lease obligations for store locations amount to $1,236,751. The total minimum rental liability under leases (excluding insurance, property taxes and certain other occupancy charges) to the date of expiry or option, whichever occurs first, amounts to $8,497,187.

13 EXPROPRIATION

Subsequent to the balance sheet date the Company accepted compensation in the amount of $87,500 relating to the expropriation of a Company store by the Municipality of Metropolitan Toronto. This amount has not been included in the accounts at this date.

Auditors' report to the shareholders

We have examined the consolidated balance sheet of The Becker Milk Company Limited and its subsidiary companies as at April 30, 1970, and the consolidated statements of earnings, retained earnings and source and use of funds for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of earnings, retained earnings and source and use of funds present fairly the financial position of The Becker Milk Company Limited and its subsidiary companies as at April 30, 1970, and the results of its operations for the year ended on that date in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

June 16, 1970

Langlois, Hauck & Company

Chartered Accountants

Ten years of progress

Year ended April 30

	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961
	$	$	$	$	$	$	$	$	$	$
Sales	50,636,008	42,581,264	34,511,342	27,150,658	19,966,503	14,917,766	10,621,311	6,837,097	4,533,586	2,418,502
Earnings before depreciation and amortization, interest and taxes on income	3,271,049	2,716,803	2,189,374	1,707,740	1,039,740	549,167	392,750	292,841	202,107	123,366
Depreciation and amortization (Note 1)	814,019	693,962	483,576	395,838	315,746	251,170	195,140	124,799	89,196	53,619
Interest	194,858	80,813	51,562	30,038	34,583	21,478	14,014	5,910	3,448	3,100
Taxes on income	1,197,800	1,025,431	857,663	656,419	352,646	137,747	92,850	77,718	47,651	5,203
Net earnings	1,064,372	916,597	796,573	625,445	336,765	138,772	90,746	84,414	61,812	61,444
Shareholders' equity (Note 2)	4,853,593	3,815,981	2,708,463	1,940,340	728,552	391,197	252,400	161,403	76,819	15,007
Shares outstanding (Note 2)	1,718,260	1,717,540	1,703,700	1,703,000	1,600,750	1,589,250	1,584,250	1,534,000	1,500,000	1,500,000
Net earnings per class B and common share (Note 3)	.60	.51	.45	.35	.21	.09	.06	.06	.04	.04
No. of stores (at end of fiscal year)	293	251	201	156	127	101	81	51	37	27
Net fixed asset additions	2,165,236	2,244,977	1,973,365	887,833	655,063	763,908	597,888	819,880	256,598	135,142

Notes:

(1) Figures for all years have been adjusted to reflect current Company policy on depreciation and amortization.

(2) Combined Class "B" and Common.

(3) Figures for all years have been adjusted for the ten-for-one stock split of February 28, 1967. Net earnings per share have been adjusted to allow for the current year's Class "A" preference dividend. Dividends on Class "A" shares from January 1, 1970 to April 30, 1970 amounting to $11,350 have not been declared and/or allowed in computing the shareholders' equity.

Directors and Officers

Board of Directors

Frank A. Bazos	Chairman of the Board The Becker Milk Company Limited
Robert W. Lowe	President The Becker Milk Company Limited
Robert Bazos	President Perrette Dairy Limited
William H. Zimmerman	Queen's Counsel
E. S. Miles	Investment Dealer
George Panos	Executive The Becker Milk Company Limited
Geoffrey W. J. Pottow	Vice-President The Becker Milk Company Limited

Officers

Frank A. Bazos	Chairman of the Board
Robert W. Lowe	President
Robert Bazos	Vice-President
Geoffrey W. J. Pottow	Vice-President
William H. Zimmerman	Secretary
Arvi Magi	Treasurer

Registrar and Transfer Agent

The Royal Trust Company — Toronto and Montreal

Auditors

Langlois, Hauck & Company — Toronto

Solicitors

Zimmerman & Winters — Toronto

Stock Exchange Listing of Class "B" Shares

Toronto Stock Exchange

Head Office

671 Warden Ave. — Scarborough, Ontario, Canada

Becker Country

The Becker Milk Company Limited

Annual Report
Year Ended April 30, 1970

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